



# Sustaining a Proactive Compliance Program While Implementing an Integrated Tax System (ITS)

NESTOA Annual Conference  
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# Agenda



- Strategic view
- An integrated tax system (ITS) project is underway – PA Revenue timeline
- Challenge – how to keep the ‘lights on’ and even advance agency activities, especially compliance functions?
- Investing in compliance personnel, resources and tools, including our data warehouse
  - Leading up to the ITS
  - Ongoing during the ITS implementation

## The Secretary of Revenue's Goals:

1. Improve customer service,
2. Create efficiencies,
3. Enhance the equitable collection of taxes due,
4. Align Revenue's initiatives with the priorities of the Governor, and
5. Attract, develop and retain skilled and motivated employees

The mission of the Bureau of Enforcement Planning, Analysis & Discovery (EPAD) is to advance the enforcement program of the PA Department of Revenue through ***strategic planning, coordinated project management, and decision analysis*** with the ultimate goal of ***stimulating and retaining voluntary compliance.***

2008 – Revenue Roadmap - Strategy

2010 – ITS contract with Accenture Work begins for contractor and dedicated agency staff

2011 – Business process reengineering and architecture

2012 – Programming and testing

2013 – Corporation taxes implemented

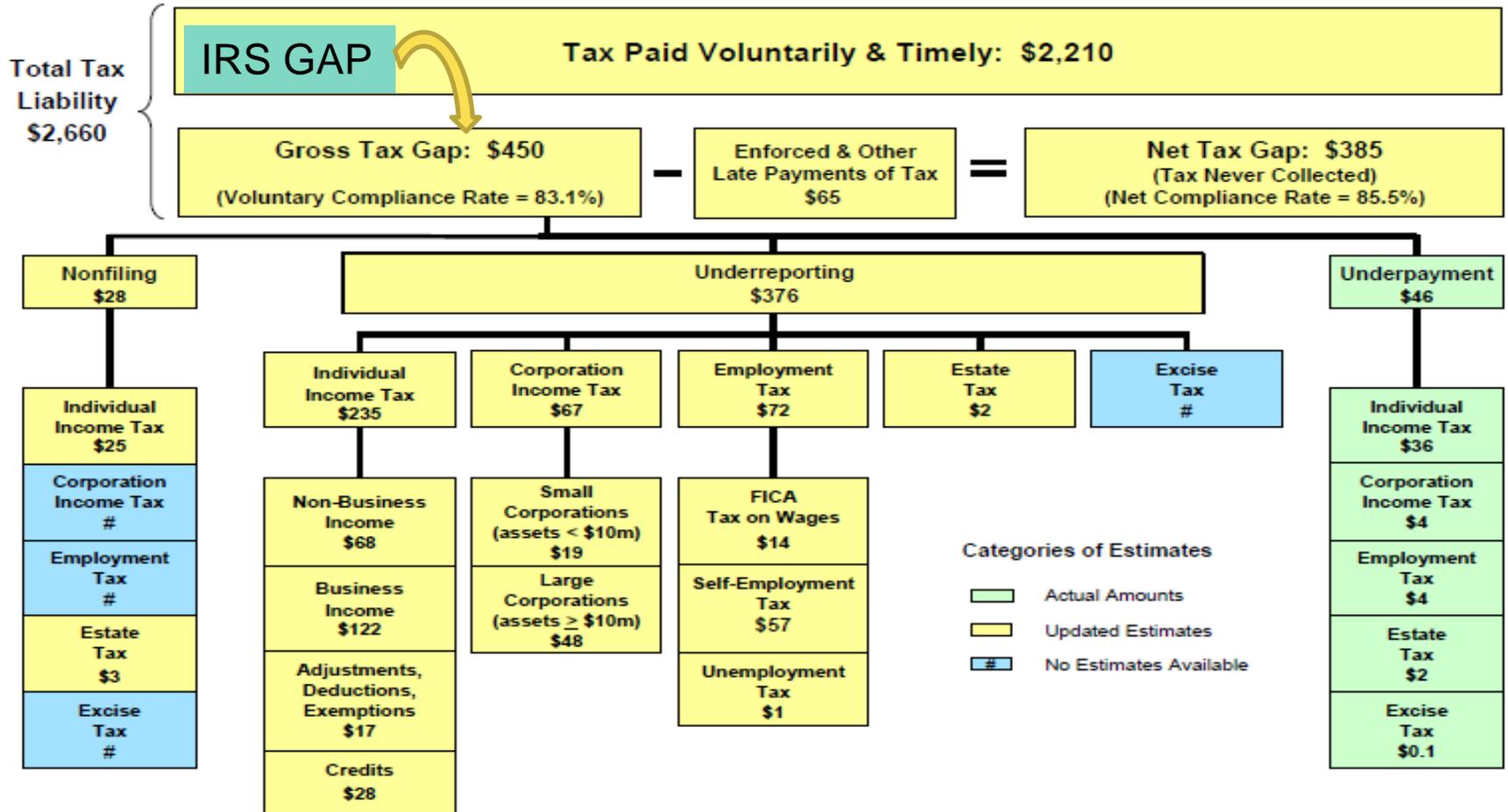
2014 and beyond – Other taxes implemented

We are charged with addressing tax non-compliance /closing the tax gaps.

*How do we assure a robust, effective compliance and collections program that addresses the tax gaps AND is sustained during the ITS?*

# THE IRS TAX GAP

Tax Gap "Map"  
Tax Year 2006 (\$ billions)



*We are charged with addressing tax non-compliance / closing the tax gaps.*

*How do we assure a robust, effective compliance and collections program that addresses the tax gaps AND is sustained during the ITS?*

***... Have a plan ...***

Our response has been proactive:

- Enforcement planning and funding
- Decision analytics and applications
- Enforcement programs to address major compliance problems ('tax gaps')

Three approaches have been used:

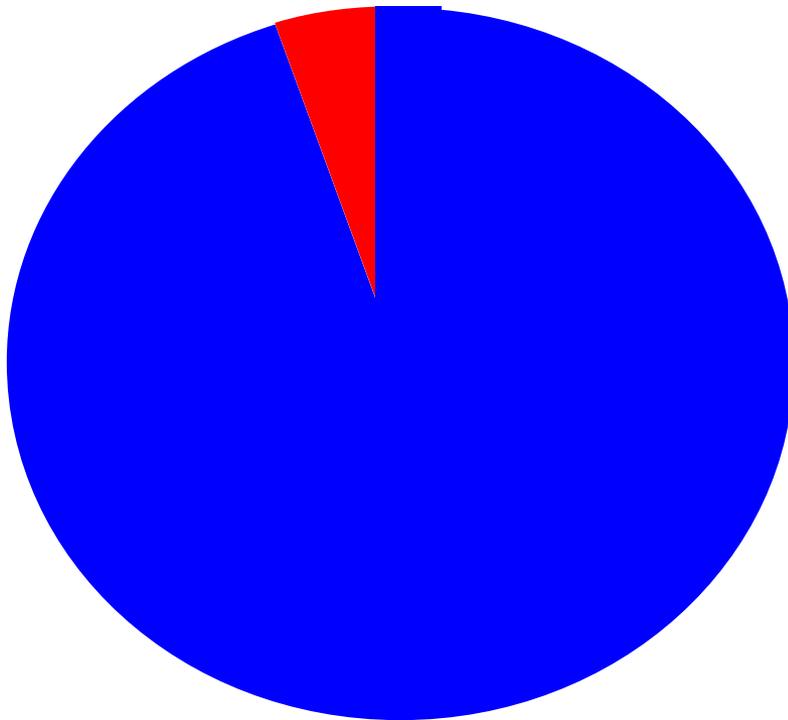
- Program Revision Requests
  - Line item funding within the budget
  - Specific program proposals for tax enforcement
- Enhanced Revenue Collection Account
  - Restricted account within the general fund
  - Now \$10 million funding authority
  - Payment from deposited program benefits for enforcement personnel and additional resources
- Contingent Fee (new in 2012)

- Stimulate and Retain Voluntary Compliance (SVC)
  - Maximize overall dollars collected
  - Focus on changing taxpayer behavior
  - Assure taxpayers pay their fair share
- Rely upon Decision Analytics
- Need to Improve Collections Processes
  - Competition with private businesses
  - E-Commerce solutions where possible

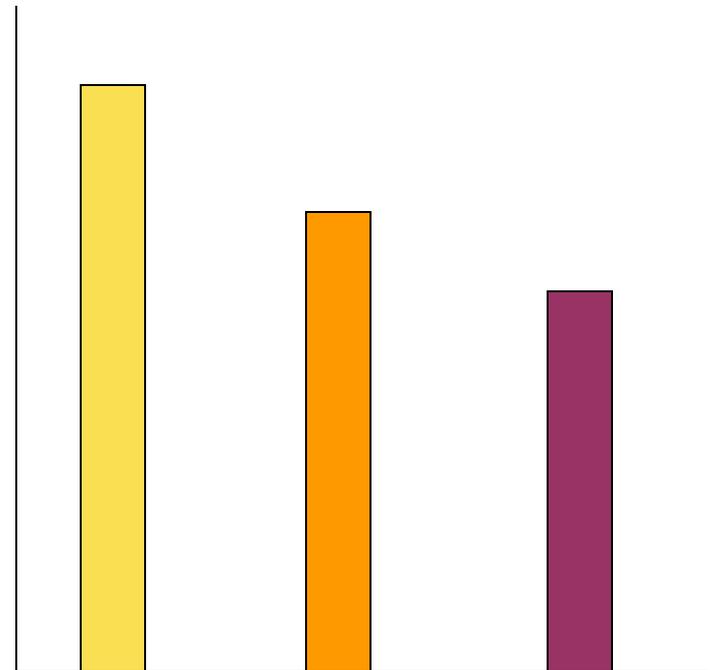
We want to:

1. Grow the Pie – Increase voluntary compliance
2. Slim the Slice – Decrease the requirement for delinquent collection
3. Lower the Cost (per dollar collected)

## TAX REVENUE



## COST PER \$ COLLECTED



**FY10-11    FY11-12    FY12-13**

- Why? Transform doing business
  - Data → Information → Knowledge → Action
- Goals are to select:
  - The right programs and
  - For cases – the 'Right Treatment at the Right Time for the Right Taxpayer' (RT)<sup>3</sup>
- How?
  - Using the most critical tool – compliance data warehouse, and
  - Building applications for innovative compliance programs using formal and 'shadow' IT resources

## Data Warehouse Timeline:

2004 Pilot analytics projects

2005 Executive presentation / buy-in

2006 Live with Sybase IQ

- FTI data store (all extracts back to 2001)
- Business use tax application (production!)

2007-10 Data and application growth

2011 ITS archival strategy

## Data Warehouse functionality:

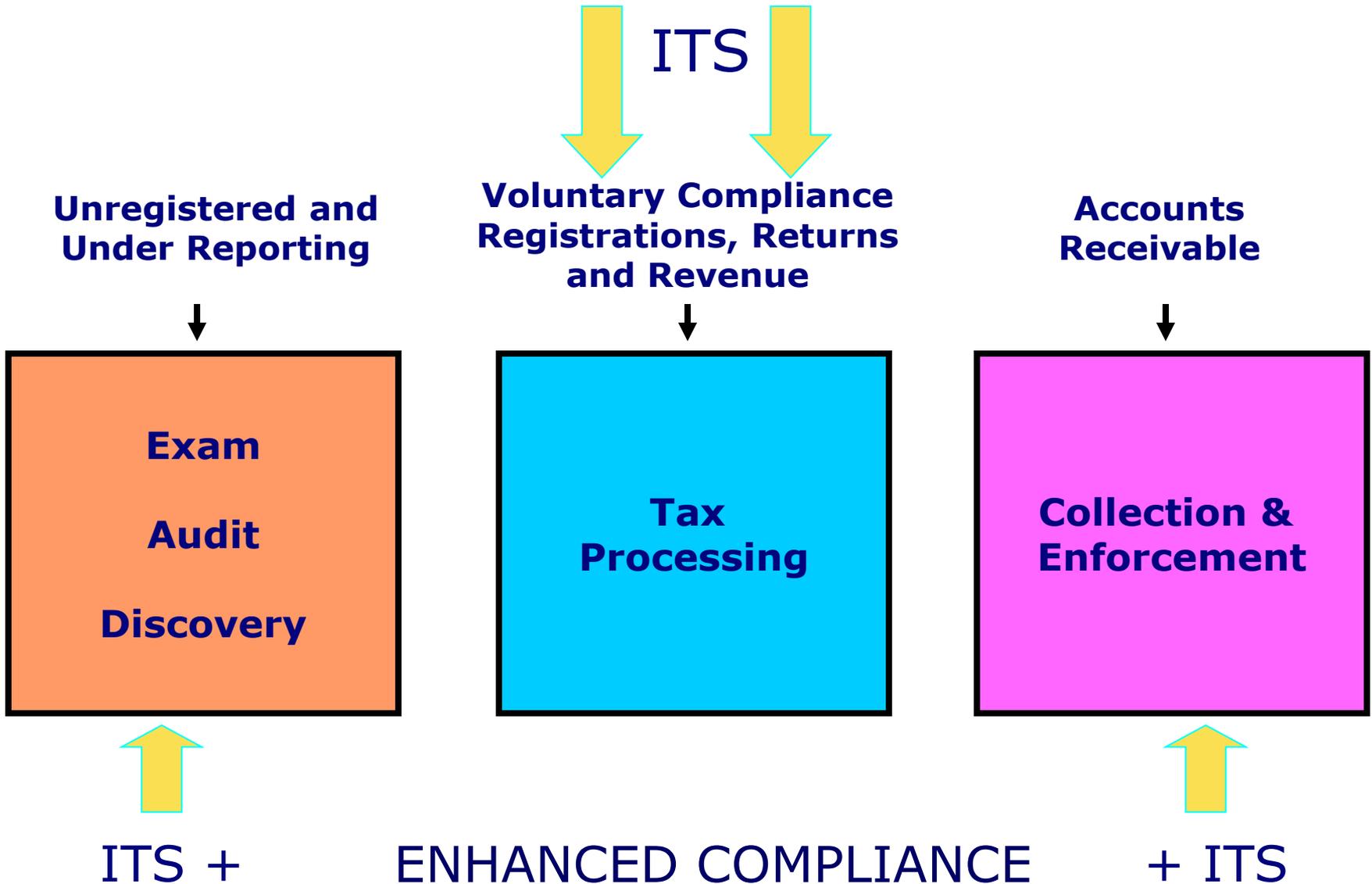
- Analyze taxpayer behavior
- Define appropriate 'treatments' or actions
- Facilitate case-specific research and actions
- Measure program performance - reporting

- Personal income tax – pass through entities (PTE's) and their owners
  - Strategy to address key tax gap
  - Responds to growth in PTE's
- Use tax – business voluntary compliance initiative
- State tax delinquent collections tools
  - Liens – routine and automated
  - Citations for delinquent sales tax licensees
  - Responsible party assessments automated
  - Clearances for licensees and state employees
  - Administrative bank attachment

- Stages of a VCI
  - Outreach and education
  - Notice/contact campaign – invitation to the taxpayer to voluntarily comply (carrot)
    - (tax professionals become aware)
  - Stepped-up enforcement (stick)
- Benefits
  - Emphasis on taxpayer knowledge leads to increased compliance
  - Greater customer service
  - Collections efficiency
  - Greater collections – expanded tax base

- Keep fiscal investment options open
  - Expand/extend Enhanced Revenue Collection Account (ERCA)
  - Benefits based procurement model
- Enforcement Program Plan
  - One example – the comprehensive sales and use tax strategy for remote sellers
    - Discover and register Internet retailers
    - Business and consumer use tax efforts
  - New information returns (e.g., 1099-K)
- New statutory tools – legislative proposals

# KEY FUNCTIONS AND THE ITS



# A Few Takeaways



- Consider adoption and wider use of voluntary compliance initiative model
  - Greater efficiency
  - Greater customer service
  - Greater overall compliance – tax base expansion
- Perpetual acquisition and expanded use of data
  - For collections, underreporting analysis, fraud detection and discovery of unregistered taxpayers

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